

ECONOMIC REPORT

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Trends in Farmland Values

The decline in farmland values that began in 1983 continued in 1986. Farm Credit Corporation's (FCC) Land Values Monitoring System reveals that a further drop of 6.9 per cent occurred between July 1, 1985 and July 1, 1986.

During 1985, FCC established a system of benchmarks to monitor variations in land values across the country. Representative parcels of bare land were selected according to the most prevalent agricultural classes of soil in each census district. Appraisals of the selected parcels were completed as of July 1, 1984, and updated yearly thereafter using the most recent comparable farm sales on the market. A weighting factor was assigned to each benchmark appraisal to come up with national and provincial percentage changes. The weighting factors were based on the areas of improved farmland compiled from the 1981 census. The land capability information for agriculture and the 1981 census land use information were provided by the Land Use Policy and Research Branch of Environment Canada.

According to FCC estimates, cultivated bare land in Canada had already decreased in value by about 8.8 per cent from July 1984 to July 1985.

Based on Statistics Canada information, the estimated decrease was 7.5 per cent during the period 1984 to 1985. One of the reasons for the difference is that Statistics Canada data reflect farm real estate values while FCC's data are based on bare land values. The value of farm buildings included in Statistics Canada's data could account, especially in B.C. and eastern Canada, for much of the difference.

According to FCC's Land Value Monitoring System land values decreased in eight out of 10 provinces between 1985 and 1986. Quebec and Nova Scotia posted small increases of 1.4 and 1.7 per cent respectively. However, there were wide differences in the rate of decline for other provinces. The largest decreases were observed in Alberta and Saskatchewan where land prices dropped by more than eight per cent. Prince Edward Island followed at 7.9 per cent. British Columbia, Manitoba and Ontario recorded decreases of 6.6, 4.9 and 4.8 per cent respectively. There were not enough sales in 1985-86 in Newfoundland to report a percentage of variation.

Globally, grain growing areas suffered a larger decline in land values over the two-year period 1984-86. Values declined by 19.4 per cent in British Columbia, 17.7 per cent in Saskatchewan, 15.8 per cent in Alberta, 11.8 per cent in Manitoba and 13.7 per cent in Ontario. Prince Edward Island also registered a major decline of 18.4 per cent in land values for the same period. The decrease in this province could be attributed to depressed potato prices for the marketing season 1985-86.

Average annual variations in values of cultivated bare land, excluding buildings, for the period 1984 to 1986 across the country are indicated on the map. Factors like climatic conditions (crop yields), commodity prices, mix of farm enterprises, introduction or withdrawal of provincial credit or subsidy programs, severe financial stress among farmers with heavy debt loads, cautious attitudes among farm lenders and urban influence have affected farmland values. Buyers

TABLE 1 - PER CENT VARIATIONS IN FARMLAND VALUES

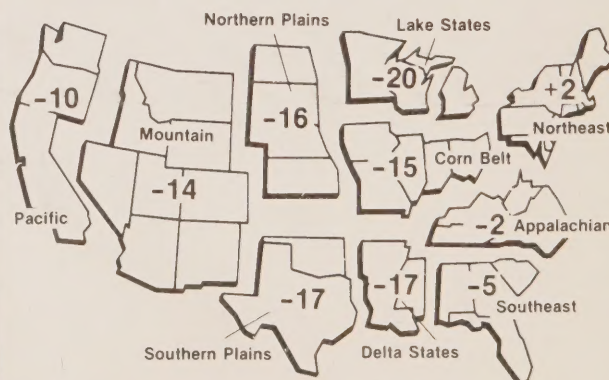
Province	1984-1985	1985-1986	1984-1986
British Columbia	-13.7	- 6.6	-19.4
Alberta	- 8.3	- 8.2	-15.8
Saskatchewan	-10.3	- 8.3	17.7
Manitoba	- 7.3	- 4.9	-11.8
Ontario	- 9.4	- 4.8	-13.7
Quebec	- 1.0	+ 1.4	+ .4
New Brunswick	- 1.0	- 2.1	- 3.1
Nova Scotia	- 4.3	+ 1.7	- 2.7
Prince Edward Island	-11.4	- 7.9	-18.4
Newfoundland	0	n/a	n/a
Canada	- 8.8	- 6.9	-15.1

also appear to be waiting for lower values.

Southern areas of the Prairie provinces are posting a sharp decrease in land values. Last year's climatic conditions combined with depressed grain prices have reduced the demand for farmland. Values are off by 20 per cent for the two-year period reported. Southern Ontario and PEI are two other areas where land prices declined faster than the national average. Reduced prices for farm commodities produced in these two areas seem to have triggered the decrease.

The decline in farmland values reported in Canada is not as steep as the drop recorded in the U.S. The annual USDA survey revealed a drop of 12 per cent in average farmland prices from April 1, 1985 to February 1, 1986 compared to 6.9 per cent for Canada from July 1985 to July 1986. A decline of the same magnitude had occurred between April 1, 1984 and April 1, 1985 in the U.S. compared to 8.8 per cent for Canada for the period 1984-1985.

FARMLAND VALUE CHANGES (% change April '85 to Feb. '86)



Total U.S. 1985-1986: -12%
Total U.S. 1981-1986: -29%

Source: USDA Survey and Doane's Agricultural Report, April 11, 1986.

Farm Real Estate Values

The total value of farm capital in Canada as estimated by Statistics Canada varied from \$23.8 billion in 1971 to \$115.3 billion in 1985. This represents a 484 per cent increase over the 14-year period. The total value of farm capital peaked in 1982 at \$131.6 billion and has been declining since then. For the period 1971 to 1985, the increase in farm capital represents an annual compound rate of 11.9 per cent. For the shorter period 1982 to 1985, farm capital has declined 4.3 per cent annually.

The main causes of the variations in farm capital are the changes in the value of farm real estate. Farm real estate accounts for over 75 per cent of total farm capital in Canada. The rate of change in farm real estate values varied considerably between and within provinces.

Over the period 1975 to 1985, land values increased at an annual compound rate of 6.8 per cent in Canada (Table 2). During that same period, Saskatchewan experienced the fastest increase at 8.78 per cent while PEI registered the smallest increase at 2.52 per cent per year. For the period 1975 to 1980, land values in Canada increased at an annual compound rate of close to 15 per cent while they declined by close to one per cent per year for the period 1980 to 1985. Variations were even more drastic in Saskatchewan and Alberta going from a respective increase of 17.56 and 17.27 per cent annually to an annual decline of 1.81 per cent and .66 per cent. Atlantic provinces did not experience the same wide variations during that 10-year period. Increases were more gradual and declines less steep.

TABLE 2 - INDEX OF VALUES OF FARMLAND AND BUILDINGS¹

Province	1975	1980	1981	1982	1983	1984	1985	Annual Compound Rate of Variation		
								1975-1980	1980-1985	1975-1985
British Columbia	49.4	86.9	100.0	92.9	95.7	92.9	88.2	11.96	.30	5.97
Alberta	40.9	90.7	100.0	101.0	94.8	88.2	82.8	17.27	- 1.81	7.31
Saskatchewan	38.7	86.9	100.0	107.1	103.9	99.7	89.8	17.56	.66	8.78
Manitoba	46.2	86.3	100.0	90.0	87.3	82.0	77.8	13.31	- 2.05	5.35
Ontario	47.1	90.1	100.0	98.1	91.2	89.4	83.1	13.85	- 1.60	5.84
Quebec	48.1	89.0	100.0	103.0	105.1	102.1	97.0	13.10	1.74	7.27
New Brunswick	64.0	83.3	100.0	94.8	94.8	93.9	93.9	5.41	2.42	3.91
Nova Scotia	68.0	91.5	100.0	94.9	94.9	91.1	89.3	6.12	- .49	2.76
Prince Edward Island	66.9	85.3	100.0	90.2	90.2	85.8	85.8	4.98	.12	2.52
Newfoundland	n/a	71.4	100.0	93.3	93.3	90.2	90.2	n/a	4.79	n/a
Canada	44.3	88.9	100.0	100.7	96.4	92.4	85.5	14.95	- .78	6.80

¹1981=100

Source: Statistics Canada

Inflation and Land Values

Throughout the 1970's, capital gains in farmland, after adjustment for inflation, exceeded aggregate net farm income. "Real" land values increased annually. For farmers owning land since 1971, the inflation adjusted (real) values of land have remained positive.

For farmers who bought farmland at a later date, the benefits of land inflation have not been as clear cut. Land bought as far back as 1975 is no longer showing an increase, if adjusted for inflation.

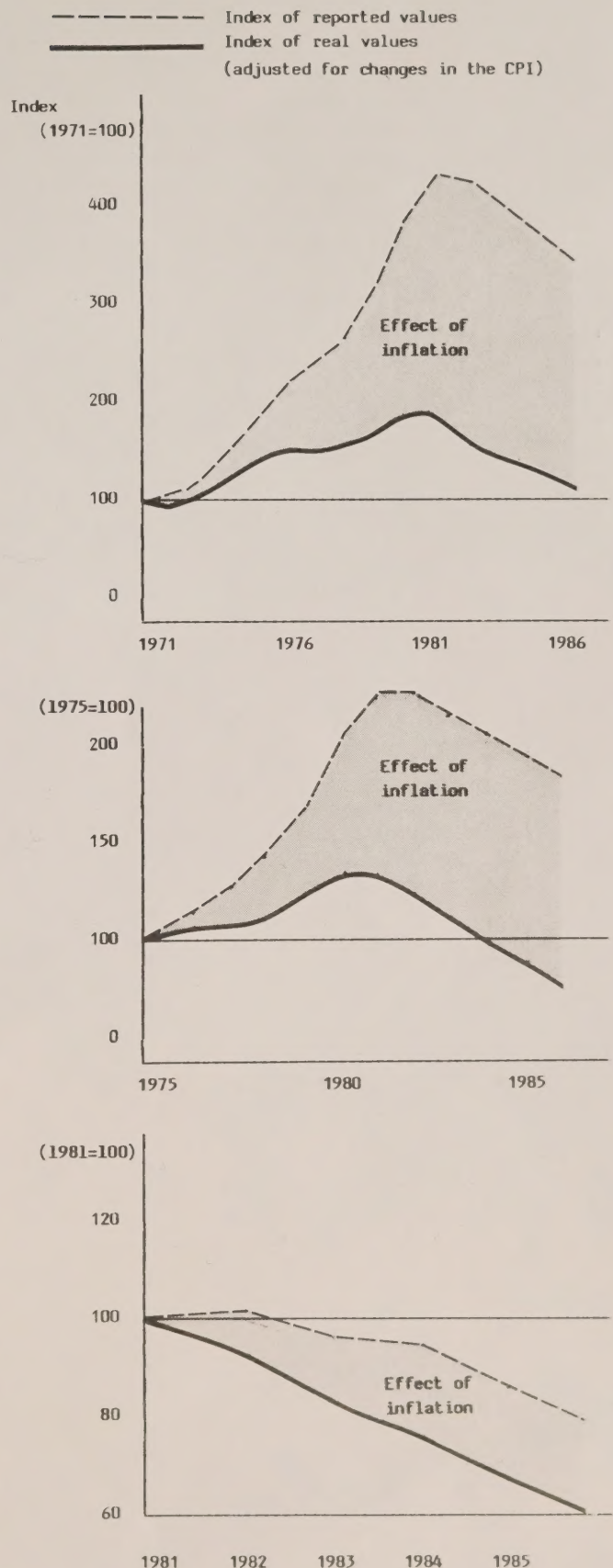
For the period 1981 to 1986, the combined effect of declining land values and inflation has reduced the value of an original investment in farmland by 40 per cent in terms of 1981 dollars. This combination of declining land values and high interest rates has created a crisis in agriculture.

The economic crisis in farming is not so much an income problem as a problem of absorbing large capital losses for highly-leveraged farmers. Farming has always yielded a low return on fixed assets. This year's return on fixed farm assets will likely exceed the annual rates of return of the last five years. The expected increase of the realized net farm income combined with declining farmland values will boost the current return on assets to the highest level in several years. This will allow farmers in strong equity positions to breathe easier, but it will not be of any help to farmers who have borrowed heavily unless they can find a way to convert debt to equity.

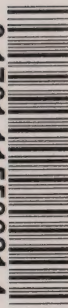
Future Expectations

Farmland values, at least in the short-run, are expected to continue to experience downward pressures. Declines should be limited to grain producing areas and should be smaller in magnitude. Land prices should bottom-out in other areas. Depressed commodity prices will continue to exert pressure on heavily-leveraged farmers forcing some to sell part or all of their land, further aggravating the balance between supply and demand. Although realized net income in 1986 is expected to exceed its 1985 level by eight per cent, farmers will be cautious about increasing their capital purchases.

VARIATION IN LAND VALUES



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